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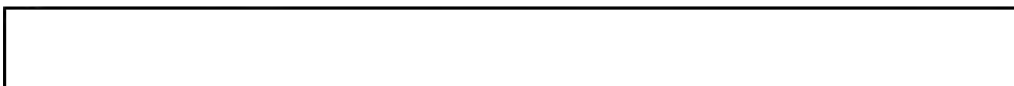
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WESTERN SAHARA

Morocco's decision yesterday to sever diplomatic relations with Algeria underscores Rabat's anger over Algiers' continuing opposition to the Moroccan-Mauritanian take-over of Western Sahara. Mauritania, which jointly administers the territory with Morocco, followed Rabat's lead and broke with Algiers within hours of Morocco's move.

As explained in a lengthy government communique from Rabat, the break in relations was precipitated by Algerian recognition on Saturday of the Saharan Democratic Arab Republic, proclaimed on February 27 by the Algerian-backed Polisario Front. Rabat has condemned the so-called Polisario "state" as an Algerian creation.

Algerian recognition followed by a day the Front's announcement that it had also formed a "government," a move calculated to strengthen its shaky political credentials and to gain international support. The new "government" controls little territory and is in effect a government in exile.

In announcing its recognition of the new Saharan "state," Algiers again pledged to give the Polisario Front its full political, moral, and material support in the struggle for self-determination for Western Sahara. Only Algeria and two African states, the Malagasy Republic and Burundi, have so far recognized the new Saharan "state."

Egyptian President Sadat, in a statement released yesterday, urged restraint upon both Morocco and Algeria and cautioned against taking steps that would "complicate the situation." Sadat's remarks suggest Cairo is prepared to resume its mediatory role if the parties are receptive. Last month, Egyptian Vice President Mubarak shuttled between Rabat and Algiers in an effort to help find some formula to prevent the dispute from getting out of hand.

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PORTUGAL

The government is preparing harsh legislation to deal with foreign revolutionaries who try to help their Portuguese counterparts delay legislative elections by inciting civil disturbances.

Under the new legislation, which probably will become effective next week, foreign citizens can be expelled for violating national security or public order, or for participating in political activities without permission.

The legislation is also aimed at reassuring the Portuguese people, who are uneasy about recent newspaper reports that there is a growing number of Cubans in Portugal. The current spate of rumors apparently stems from the alleged presence of Cubans and Italians at disturbances last week in the Communist stronghold of Setubal, some 20 miles south of Lisbon.

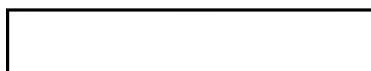
Many Portuguese are sensitive about Cuban involvement in the former colony of Angola and fear some attempt may be made to aid the leftist cause in Portugal. The nearly 400,000 Angolan returnees are particularly alert to the Cuban presence, attributing the problems they are having in Portugal to the Marxist Popular Movement for the Liberation of Angola and its Cuban supporters.

Military leaders have discounted the stories of "thousands" of Cubans entering Portugal, but no accurate figures are available. Lisbon military region commander Lourenco has told reporters that the estimates are inflated because Spanish-speaking persons are often mistakenly presumed to be Cubans. One newspaper has warned of Cubans passing themselves off as Chilean exiles.

Government authorities have recognized the need for measures to control radical exiles who have flocked to Portugal since the overthrow of the Caetano regime in April 1974, but have done little, until now, to solve the problem. Since the collapse of leftist influence on November 25, foreign radicals have reportedly taken a more provocative stand than local leftists in clashes with authorities. Attempts to round up exiles after November 25 were ineffective.



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NATO-IBERIA

The Western allies are proceeding with plans to draw Portugal and Spain closer to NATO.

For Portugal—already an Alliance member—the task is one of finding an appropriate role for the armed forces and aiding in their modernization. In the case of Spain, a number of NATO members believe that it would be desirable to encourage Madrid's unofficial participation in Alliance activities until such time as West European opinion is prepared to consider formal membership.

Portugal

The effort to develop an Alliance role for the Portuguese armed forces—particularly the army—parallels Lisbon's efforts to reduce the army's political role and to limit its mission to the defense of Portugal and its island possessions. Portuguese military leaders see this revised role for the army as an important first step toward the development of a democratic political system. They contend the armed forces must assume a more traditional role, now that Portugal has relinquished its colonial empire.

The allies want to help clarify the Portuguese army's role in NATO and modernize the armed forces in order to strengthen Lisbon's ties to the Alliance and reinforce anti-Communists in the government. The first step in this process will be to gain formal allied approval in NATO of a force development program for Portugal. A lack of resources and planning experience in Portugal make more direct allied assistance essential.

A British representative has suggested the creation of an ad hoc NATO group to exchange information on military needs, float ideas, and consider alternative Portuguese force development programs. In an attempt to expand allied bilateral military assistance, Bonn has taken steps to broaden its training support for the Portuguese air force. The US has doubled its military assistance program for Portugal.

These initiatives, if supported by the other allies, could lead to multilateral assistance under the supervision of an ad hoc NATO steering group. Such a group would have the dual task of harmonizing the various bilateral arrangements and making them consistent with NATO initiatives.

Spain

Despite Spain's position outside the North Atlantic Alliance, Western military planners believe it has an important role to play in bolstering the defense of the southern flank and the western Mediterranean.

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From Madrid's perspective, closer association with the Alliance is desirable because it provides an opportunity to strengthen ties with other European countries. Spain's ultimate goal is EC membership, which it believes would strengthen domestic forces committed to a democratic political system.

The recently revised US-Spanish defense treaty, which put relations on a new basis of greater reciprocity, is regarded as the initial step toward establishing closer relations with NATO. The treaty anticipates enhanced coordination with NATO and looks toward increased Spanish contacts with other Western governments.

Foreign Minister Areilza, in talks with NATO representatives in Brussels last month, discussed how Spain might proceed to develop an early and visible connection with the Alliance. [REDACTED] the talks focused on early Spanish participation in various NATO-related military activities and establishment of liaison relationships with Alliance institutions.

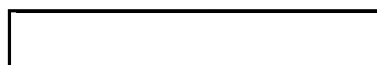
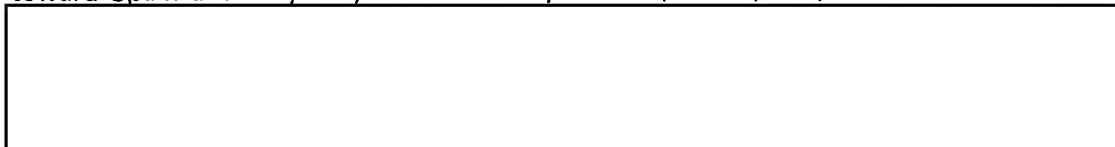
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Some observers, more keenly aware of the strong undercurrent of opposition to closer ties to Spain still existing in many West European countries, have recommended that Spain not push forward too hard and too fast. A high-ranking West German official maintains that a gradual and cautious approach to Spanish association and stepped-up bilateral efforts would prove more effective than highly visible initiatives by Secretary General Luns.

The West German supported the position taken by Areilza that closer military contacts with NATO will lead the Spanish military to take a more favorable attitude toward democratization and increase their professional competence. A NATO official has suggested that Madrid place more emphasis on its strategic position in discussing closer ties to NATO with other European countries.

The latter course seems to fit in well with current West European attitudes toward Spain and may very well become part of Spanish policy in the near future.

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WESTERN EUROPE - CUBA

Cuban involvement in Angola has so far not prompted West European governments to alter radically their political and economic relations with Havana. Existing West European commercial credits to Cuba do not appear to have been affected. There is, however, growing domestic pressure on some governments to reduce their development aid programs to the Castro regime.

The larger West European countries, with the exception of West Germany, have had diplomatic relations with Havana for a decade or more and do not want to take actions that might adversely affect their share of the Cuban market. The smaller West European countries have little at stake, politically or economically, in Cuba and see no need to alter their relationship with Havana.

West Germany, which resumed diplomatic relations with Cuba only last year, last week announced cancellation of a projected aid program amounting to \$120,000. The decision was taken in part in response to criticism from opposition parties in parliament, and in part in connection with a foreign aid realignment to funnel funds to the poorest developing countries.

Sweden and Norway, major West European donors, provided more than 80 percent of the approximately \$12 million in development aid Havana received from Western Europe in 1974. Although both governments are under domestic pressure to reduce development aid to Havana, they will honor existing commitments.

The Social Democratic government in Stockholm, which has sympathized with some leftist regimes in the underdeveloped world and which has been Cuba's largest donor in Western Europe, will make every effort to continue aid. Prime Minister Palme, however, is nervous about the possibility of a political backlash and has asked Castro to postpone his trip to Sweden until after the national election in September.

Similar domestic pressure has emerged in Belgium and the Netherlands, but neither government has felt compelled to change its policy. The Hague, in fact, initiated its first aid program to Cuba three months ago, and the Belgian minister for foreign trade hopes to visit Havana this month to sign a bilateral economic cooperation agreement.

All the West European aid programs are modest in scope and even sharp reductions or phaseouts would have little impact on Cuba. Several countries—among them France and Great Britain—have given virtually nothing since Castro came to power in 1959.

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JAPAN-AUSTRALIA

Japanese-Australian relations seem likely to improve, following a relatively abrasive period caused by the economic recession and the policies of the former Whitlam government. Although Tokyo is still cautious, the recent visit by Australian Deputy Prime Minister Anthony has given Japanese leaders a clear impression that the new Fraser government is considerably more eager than its predecessor to encourage a Japanese economic role in Australia, particularly in the development of natural resources. Trade problems will remain, but should diminish in intensity.

Anthony's trip, the first overseas visit by any senior minister in Prime Minister Fraser's cabinet, seemed designed to underscore the importance the new Australian government attaches to relations with Japan—Australia's largest trading partner. Partly because Australia is Japan's second largest supplier of raw materials, the Japanese responded with a top-level reception. Anthony met with most of Japan's top cabinet ministers, including Prime Minister Miki.

During the Whitlam administration, trade and the development of Australian resources were contentious issues in relations with Japan. Some of the difficulties stemmed from problems long built into the relationship—Japan's desire for guaranteed access to Australian raw materials, and at the same time, a relatively unhindered market for Japanese manufactured goods. These objectives have run headlong into Australia's traditionally protectionist policies on manufactured products, and more recently, have conflicted with growing nationalistic sentiment against foreign "exploitation" of Australia's natural wealth.

Both sides engaged in discriminatory trade practices, partly in an effort to counter recessionary pressures. Tokyo caused an uproar in 1974 by banning imports of Australian beef, closing off a major market for Australian producers. Last year, some imports were resumed, but not nearly enough to satisfy Canberra. Japanese companies caused additional irritation by asking Australian mineral producers to cut back agreed-upon shipments because of the downturn in the Japanese economy.

The Japanese, for their part, have been unhappy over Canberra's efforts to influence prices in contract negotiations between private Japanese and Australian companies. Tokyo is also vexed over import restrictions imposed by Canberra on a wide range of products, particularly automobiles. The trade balance is heavily in Canberra's favor, which adds to Japanese dissatisfaction.

Much to the pleasure of Japanese leaders, Anthony indicated that the Fraser government is committed to private sector development of resources—including uranium, which was off-limits to foreign participation under Whitlam. According to Anthony, the conservatives view 50-percent Australian equity as a suitable target. In the case of uranium, however, Canberra wants a higher percentage of Australian ownership.

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As for trade, Anthony reportedly expressed his government's intention to retain, with some adjustments, several key policies instituted by Whitlam:

--Government review of privately negotiated commodity agreements, but henceforth only in cases where the "national interest" was at stake.

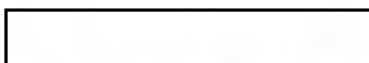
--Maintenance of most import restrictions, at least through the end of the current fiscal year.

--"Benign" Australian membership in primary commodity producers' organizations.

One Australian embassy official admitted that Anthony's description of Australian-Japanese economic interdependence as a source of strength, rather than vulnerability, constituted a significant evolution in Canberra's thinking. Japanese officials for their part believe that it is too early to evaluate fully the new government's attitudes, but seem generally optimistic. They point to a "pro-business" attitude on the part of the Fraser government, as well as Anthony's frequent references to "market prices and forces" in his conversations with Japanese leaders. The Japanese are also hopeful that the worldwide economic recovery will ease protectionist inclinations in Canberra.

Another source of encouragement to Tokyo is Canberra's renewed desire to conclude a basic relations treaty. Talks on a treaty have foundered for several years because of differences over economic issues.

There is some concern in Tokyo that the Japanese business community will overreact to the conservative victory in Australia and fail to give due regard to the basic nationalistic undercurrent still running strong in Australia. Insensitive behavior by Japanese firms in the difficult negotiations coming up on raw materials prices, for example, could diminish the good will of the new Australian government.



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PERU

Senior naval officers are seeking support for a plan to dissociate the navy from the government of General Morales Bermudez and to rally conservative opposition to government policies.

The apparent unwillingness of President Morales Bermudez to reassert his earlier moderate leadership against leftist influence in the government has been fanning the flames of discontent for weeks among nearly all conservative sectors. Some naval officials are so concerned about the leftward drift of the administration that they have reportedly drafted a manifesto which attacks the government's political orientation and would dissociate the navy from present policies.

High-ranking naval officers, possibly including the navy minister, support a plan to publish the manifesto on March 8 or 9 and to sail the fleet out of Lima's port of Callao to reinforce their argument. A similar maneuver by the navy last year succeeded in forcing the ouster of an unpopular navy minister.

Some naval officers have talked of plans to oust Morales Bermudez in order to get rid of Prime Minister Fernandez Maldonado, the leading advocate of anti-capitalist policies in the government. They claim to have support from some army officers and from leaders of the major opposition party, the American Popular Revolutionary Alliance.

Statements attributed to the navy minister on March 4, however, suggest that the navy does not have sufficient backing from the other services to mount a coup. The alerting of key army units in the capital at the beginning of the weekend was more likely a government precaution against a coup than an indicator of army action against the administration.

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USSR

According to a senior economist at the Institute of World Socialist Economy in Moscow, efforts will soon be made to centralize and improve the control structure for Soviet foreign economic relations. The planning and implementation of these changes will be difficult and may take as long as two or three years. Moreover, tremendous bureaucratic resistance is expected from the Ministry of Foreign Trade.

Improved efficiency and better management will be the major objective, especially in the area of foreign trade. The entire spectrum of foreign economic activity will be affected, however, including finance, CEMA integration, aviation, and shipping. This will require the development of a new, long-term economic strategy and some new concepts and management mechanisms, particularly in foreign trade.

It is not clear where this super authority will reside, nor exactly what changes are envisioned. The Soviet economist mentioned more realistic foreign trade prices and more active participation in foreign trade by the industrial ministries as possible changes. Experts from Gosplan, the Ministry of Foreign Trade, the Institute of World Economy and International Relations, and the Institute of World Socialist Economy will meet early this week to begin discussions. The two institutes have been in the forefront in arguing for reorganization of the Soviet foreign trade system and for a more active role for foreign trade in the Soviet economy, including a greater Soviet participation in the international division of labor.

The reorganization was alluded to by General Secretary Brezhnev in his speech of February 24 to the 25th party congress. Brezhnev said, "Politics and economics, diplomacy and commerce, industrial production and trade are all intertwined in foreign economic relations. Consequently, the approach to them and their management must be integrated, tying up into one knot the efforts of all departments, and our political and economic interests. This is exactly how this important issue is regarded by the party's Central Committee."

Arguments for reorganizing the Soviet foreign trade mechanism have persisted for many years, but the relatively small role of foreign trade in the Soviet economy limited the development of an "issue" and allowed the Ministry of Foreign Trade to maintain its monopoly position. The rapidly growing role of foreign trade (about 10 percent of GNP in 1975, compared to about 5 percent between 1965 and 1970) and the special and growing role of "compensation projects" with both communist and Western trading partners require a fresh examination of foreign economic relations. Moreover, the fact that foreign trade may account for more than 20 percent of Soviet GNP by 1980 imparts a sense of urgency to the need for reform. Changes already have been made in Gosplan, which places great importance on the role of "compensation agreements" in the development of the Soviet economy.

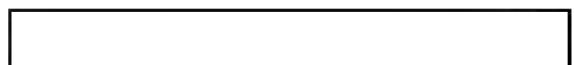
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